



November 3, 2003

Honorable Wesley Chesbro, Chair  
Joint Legislative Budget Committee  
Senate Budget and Fiscal Review Committee

Honorable Jenny Oropeza, Chair  
Assembly Budget Committee

Honorable Dede Alpert, Chair  
Senate Appropriations Committee

Honorable Darrell Steinberg, Chair  
Assembly Appropriations Committee

### **Control Section 4.10—Second Report**

The May Revision to the 2003-04 Budget included a proposal to give the Director of Finance the authority to mitigate the effects of unbudgeted employee compensation increases. Specifically the Administration proposed Control Section 4.10, which would have empowered the Director of Finance to reduce appropriations, abolish positions, and reallocate funds among items of appropriation within the Budget Act.

During its deliberations on the Budget, the Legislature significantly amended the language we had proposed for Control Section 4.10 to: (1) require savings, either through budget reductions or compensation concessions totaling \$1,066.0 million; (2) require reductions to appropriations totaling at least \$306.5 million of which at least \$180.9 million would be from General Fund appropriations; and (3) require that at least 16,000 positions be abolished. The latter requirement could be adjusted for concessions reached through employee bargaining, and could include adjustments for reductions in personal services contracts in lieu of eliminating positions.

In anticipation of the Legislature granting the Director of Finance the authority as proposed in Control Section 4.10, the Director of Personnel Administration and I directed all departments to prepare plans to reduce employee compensation costs in case the collective bargaining process did not result in the savings necessary to bring employee compensation costs in line with the Budget. When the Legislature amended the requirements of Control Section 4.10, departments were instructed to revise their reduction plans so the more stringent requirements adopted by the Legislature could be satisfied.

We have now completed our review of all the reduction plans submitted by departments, and will be revising departments' budgets to comply with the requirements of Control Section 4.10. Even with all of the adjustments to departments' budgets that we have approved, we have not fully mitigated the employee compensation increases for 24-hour care, law enforcement, and firefighting obligations through the reduction plans. Governor Davis has resisted cuts in these areas because of the threat to public safety, and it would be unfair and inappropriate to constrain the incoming Administration by approving significant staffing reduction plans for these very sensitive program areas.

In approving the reduction plans, largely as a result of the July 1 executive order eliminating vacancies, we have minimized lay-offs and protected public health and safety. The combined effect of the approved plans will be to:

- Realize total savings including appropriation reductions of \$1,096.7 million.
- Reduce appropriations for 2003-04 by a total of \$427.1 million including reductions to General Fund appropriations of \$181.1 million.
- Abolish 9,277.0 positions, which when added to the adjustments calculated for salary concessions and reductions to personal services contracts will total the equivalent of 16,151.9 positions.

As you are aware, the only major bargaining unit yet to reach agreement or concessions is the unit representing correctional officers. This and the determination not to release prisoners leave a significant deficiency in Corrections. The Legislature anticipated this likelihood by providing the Director of Finance the authority to transfer funds from other appropriations to cover this deficiency. The Legislature also over-appropriated the Proposition 98 guarantee, but then **required** the Director of Finance to reduce actual expenditures to conform to the minimum Proposition 98 guarantee. Together, Control Sections 4.10 and 27.00 of the Budget Act, as well as Section 51 of Chapter 228, Statutes of 2003, provide the Director of Finance with adequate flexibility to address this shortfall in the January Budget submission. The transition team has been fully briefed on all of these contingencies and, of course, it would be inappropriate for us to foreclose policy options by taking action before we would normally act had there not been a change in Administration.

Attached to this notification letter are summary sheets reflecting the reductions for each department by program and/or activity area. To conserve paper and reduce costs, we are providing a paper version of the attachments to only the addressees of this letter. All other parties receiving copies of this letter will receive a CD ROM with the positions detail in lieu of receiving a printed report.

If you have any questions please call Bob Sands, Principal Program Budget Analyst at (916) 445-3274.

Sincerely,

A handwritten signature in dark ink, appearing to read 'S. Peace', with a stylized, flowing script.

STEVE PEACE  
Director

Attachments

cc: On following page

cc: Honorable Richard Ackerman, Vice Chair, Senate Budget and Fiscal Review Committee  
Honorable John Campbell, Vice Chair, Assembly Budget Committee  
Honorable Joseph Dunn, Chair, Senate Budget and Fiscal Review Subcommittee No. 4  
Honorable Rudy Bermudez, Chair, Assembly Budget Subcommittee No. 4  
Ms. Elizabeth Hill, Legislative Analyst (3)  
Ms. Annette Porini, Acting Director, Senate Budget and Fiscal Review Committee  
Ms. Karen French, Staff Director, Senate Appropriations Committee  
Mr. Mike Genest, Fiscal Director, Senate Minority Fiscal Office  
Ms. Diane Cummins, Senate President pro Tempore's Office  
Mr. Christopher W. Woods, Chief Consultant, Assembly Budget Committee  
Mr. Geoff Long, Chief Consultant, Assembly Appropriations Committee  
Mr. Peter Schaafsma, Staff Director, Assembly Minority Fiscal Committee  
Mr. Paul Navarro, Chief Consultant, Assembly Republican Leader's Office  
Mr. Craig Cornett, Assembly Speaker's Office (2)